

ITEM A2796

**DRAFT MTREF BUDGET FOR THE PERIOD 2014/15 – 2016/17
(SECTION 80 FINANCE 20-03-2014) (SPEC MC 27-03-2014)**

**8/2/1 (2014-2015)
8/2/1 (2016-2017)**

PURPOSE

--- The purpose of this report is to table the 2014/15 – 2016/17 Medium-Term Revenue and Expenditure Framework (MTREF) for consideration by Council. **Distributed under Separate Cover (pages 1 - 48).**

BACKGROUND

Section 16 of the Municipal Finance Management Act (MFMA) requires that:

“(1) the council of a municipality must for each financial year approve an annual budget for the municipality before the start of that financial year.

(2) In order for a municipality to comply with subsection (1), the mayor of the municipality must table the annual budget at a council meeting at least 90 days before the start of the budget year.

(3) Subsection (1) does not preclude the appropriation of money for capital expenditure for a period not exceeding three financial years, provided a separate appropriation is made for each of those financial years.”

DISCUSSION

Overview of the Budget Process

Council approved an Integrated Development Plan (IDP) and Budget Process Plan for the 2014 / 2015 Financial Year in August 2013 as required by sections 34 of the Municipal Systems Act (MSA) and 21 of the MFMA. The plan outlined key deadlines for the review of the IDP and adoption of the budget.

Consultation processes were held with stakeholders in terms of the process plan. Furthermore, engagements were held internally through the IDP and Budget Steering Committees to discuss the IDP priorities and budget formulation and implementation.

The Division of Revenue Bill 2014 (Government Gazette 37337 dated 21 February 2014) and the Gauteng Provincial Gazette Extraordinary (No. 56 dated 03 March 2014) were used to determine grants to be received for the 2014/2015 financial year as well as the two outer years (2015/16 and 2016/17).

Budget assumptions

MFMA Budget Circulars 70 and 71 informed assumptions used in this tabled budget. The following CPI's were used to project expenditure for the financial year as well as the two outer years:

	2012	2013	2014	2015	2016
	Actual	Estimate	Forecast		
CPI	5.7%	5.9%	5.6%	5.4%	5.4%

* Salary increments for the financial as per the circular and in terms of the Salary and Wages Collective Agreement are 6.8% (5.8% plus one percent) and 6.4% for the two outer years (5.4% plus one percent). The CPI for November 2012 to October 2013 is 5.8%. **An increase of 10% was made on the remuneration of Councillors to provide for increases to be announced by the MEC for Local Government in terms of the Remuneration of Public Office Bearers Act.**

The Minister of Finance in his 2014 budget speech forecast budget growth of 2.7 of 2014, expected to reach 3.5% by 2016. South Africa needs economic growth of 5% and more to create sufficient jobs. Local government is required to participate in the following programs to achieve economic stability and higher levels of economic growth:

- Expanding investment in infrastructure
- Promotion of labour intensive programmes to service delivery and to more specifically participate fully in the Expanded Public Works Programme (EPWP)
- Municipalities must act as catalysts for economic growth through creating an enabling environment for investment and other activities which foster job creation.
- Securing inclusive growth through investing strategic infrastructure programmes such as electricity generation
- Implementing the National Development Plan (NDP) through expanding electricity, transport, communications capacity and promoting industrial competitiveness.
- Building an efficient developmental state through increasing levels of delivery by ensuring improvements to policy formulation, procurement, management systems, developing mechanisms for sharing skilled personnel in critical delivery areas and minimising waste

Municipal revenues and cash flows are expected to remain under pressure and municipalities are urged to adopt a conservative approach when projecting revenues and cash receipts.

MFMA Circular 70 requires that municipalities must implement cost containment measures as approved by cabinet to eliminate non-priority spending.

The MTBPS proposed changes to the allocations to local government by shifting funds to areas which support economic development.

- The Integrated City Development Grant which provides the eight metros with incentives to improve spatial development was increased in the 2014/2015 financial year.
- The Regional Bulk Infrastructure Grant receives additional allocations over the MTREF. R110 million is gazetted in the 2014 Division of Revenue Bill for the Sebokeng Waste Water Works.

A new local government equitable share formula has been phased in the 2013/2014 financial year. Note should be taken that equitable share allocations to Emfuleni Local Municipality are decreasing over the MTREF period.

Municipalities are again advised that the Supply Chain Compliance Unit will also be focusing on municipal procurement processes. Municipalities are encouraged to introduce greater transparency in their supply chain processes by publishing SCM process outcomes for each bid on their websites.

Draft Municipal Regulations on a Standard Chart of Accounts (SCOA) were published by the Minister in September 2013 and municipalities are required to be SCOA compliant in the 2016/2017 financial year.

*** AMENDMENTS (SPEC MC 27-03-2014)**

Critical Issues in the budget

The municipality participated in the EPWP programme in previous years and a resolution was taken by Council in 2012 to subsidise the programme from Council funds. R8, 400,000 is budgeted for the programme in the 2014/15 financial year. An amount of R4, 191,000 will be received while an amount of R4, 209,000 will be Council funds. Amounts of R10, 080,000 and R11, 760,000 are provided for in the 2015/16 and the 2016/17 financial years to be funded wholly from Council funds. The programme had 465 EPWP personnel in the 2013/14 financial year.

Council has entered into a full maintenance lease for provision of Council vehicles. The estimated amount required to accommodate all the fleet in 2014/15 is R102, 462,731. Provision made in the proposed budget is R61, 497, 839.

Budget provision of R80 million for roads maintenance including potholes is made in this budget.

Provision for critical vacant posts in this proposed budget is R20 million. The amount will be prioritised based on the criticality of vacant posts. The vacancy rate reported in the 2012/13 annual report is

Skills development will be essential for current personnel and the training budget amounts to R10, 884,742. An amount of R5, 915,925 is provided for uniforms while an amount of R801, 367 is provided for loose tools in various departments.

To enhance revenue collection provision of R67 million has been made under various votes in the revenue and debt collection departments (contracted services, special projects, postage, etc).

An amount of R4, 000,000 is provided for the establishment of entities during the 2014/15 financial year.

Overview of alignment of the Budget with the IDP

The following are the strategic objectives as per the IDP, which are aligned to the Regional Strategic Objectives.

1. Re-inventing our economy
2. Renewing our communities
3. Reviving a sustainable environment
4. Re-integrating our region
5. Releasing human potential
6. Good and sustainable financial governance
7. Vibrant democracy

A reconciliation of the strategic objectives and the budget is reflected as per Supporting Tables SA4, SA5 and SA6.

Measurable Performance Objectives and Indicators

MFMA Circular 70 identifies a number of gaps in performance information which include:

- o Weak alignment of strategic and spatial plans, budgeting, implementation and operationalization / maintenance between the IDP/Budget/SDBIP/AFS/Annual Report;

- A coordinated public and private sector investment strategy that ensures that property development is aligned with plans;
- Aligned strategic spatial and sector plans that focus on spatial transformation through the co-ordination and implementation of a catalytic pipeline of projects, i.e. land development, housing, transport and infrastructure investments (and other interventions);
- Service delivery and budget implementation plan is not used as the basis of performance reporting;
- In-year reporting and control is not regularly undertaken, undermining oversight;
- In many cases non-performance has no consequences. This is further exacerbated by a lack of performance monitoring;
- Where performance systems have been established, they rarely ensure accountability of officials and political office bearers; and
- Performance measurement is limited to high level indicators which don't necessary relate back to service delivery imperatives.

Management has over the current financial year taken steps to address shortcomings in performance management. An amended SDBIP was adopted during the financial year addressing shortcomings identified internally and by the Auditor-General during the 2012/2013 audit. The amended SDBIP was discussed in various meetings including the Performance Audit Committee. The IDP and Budget Process Plan adopted by Council in August 2013 also includes spatial development targets.

MFMA Circular 13 advises municipality to formulate the Service Delivery and Budget Implementation Plans (SDBIP), after adoption of the budget. The SDBIP will be informed by the approved budget and will be tabled to the Executive Mayor 14 days after approval of the budget, while the final SDBIP will be signed by the Executive Mayor within 28 days of approval of the budget, as legislated.

Funding of the budget

The proposed budget for the financial year is R4, 970, 742, 350 which is the operational budget of R4, 573, 334, 570 and the capital budget of R397, 407,780.

In terms of section 18 of the MFMA,

“(1) An annual budget may only be funded from—

- (a) realistically anticipated revenues to be collected;
- (b) cash-backed accumulated funds from previous years' surpluses not committed for other purposes; and
- (c) borrowed funds, but only for the capital budget referred to in section 17(2).

(2) Revenue projections in the budget must be realistic, taking into account—

- (a) projected revenue for the current year based on collection levels to date; and
- (b) actual revenue collected in previous financial years.”

The municipality's ability to fund its operations is largely based on its generating own revenue. In 2012/13 the municipality embarked on an exercise to restructure its tariffs. Household sanitation tariffs were equalised, waste tariffs were adjusted by 18% to be cost reflective and the Inclining Block Tariff (IBT) structure for water was restructured.

MFMA Circular 70 requires that tariffs be cost-reflective and the municipality will continue with the exercise to ensure that tariffs are cost reflective.

The following tariff increments, based on the same tariff structure approved in 2012/2013, are proposed to be effected in the 2013 / 2014 financial year:

*	Assessment Rates	- 5.6 % increase on general rate (Actual rates payable will be based on property valuation increase) or decrease
	Electricity	- 7.98 % (Eskom increase 8.06 %)
	Water	- 8.00 % (Rand water increase 8.81 %)
	Sanitation	- 8.00 (water-borne)
	Refuse	- 8.00 %
	Other income	- 8.00 %

The electricity tariff application is still subject to approval by Eskom. The application takes into account capital costs and overheads not factored previously under costs for the tariff application. Refer to supporting table SA13a for tariffs.

The Budgeted Collection rate for the financial year is 87.52%.

Oversight by Council

As part of the 2014/15 budget process, municipalities are strongly advised to ensure that the necessary policies and processes are institutionalized to proactively curb prohibited expenditure, poor policy implementation and planning.

Amendments are proposed to some policies which were approved by Council in the previous periods. The Property Rates Policy was reviewed and the areas of amendments are:

- Refining the category description and clarifications [Clause 6 of policy]. Also definitions linked to category [Clause 2 of policy].
- Add the rate ratio's per category to policy [Clause 7 of the policy].
- Correct the year in respect of the Housing Development Scheme for Retired Persons Act 65 of 1998 to 1988 [Clause 10(3)(b)].

Policy of the Provision of Free basic Services was amended to include an affordability assessment of account holders.

No amendments are made to the following budget related policies which were approved in previous periods:

- Credit Control and Debt Collection Policy
- Principles and Policy on Recoverable Debt and Writing Off of Irrecoverable Debt
- Tariff Policy
- Policy on Access to Free Basic Services

Proposed Revenue

Proposed revenue for the 2014 / 2015 financial year is as follows:

Table A4 (Revenue)

Description	2010/11	2011/12	2012/13	Current Year 2013/14		2014/15 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
<u>Revenue By Source</u>								
Property rates	310,198	351,966	410,974	469,468	469,468	539,000	572,428	607,922
Property rates - penalties & collection charges	-	-						
Service charges - electricity revenue	1,163,243	1,415,815	1,615,708	1,874,199	1,874,199	1,977,314	2,172,186	2,345,961
Service charges - water revenue	420,482	492,337	667,182	756,385	868,714	946,898	1,011,303	1,071,509
Service charges - sanitation revenue	182,002	197,320	179,502	222,375	262,816	259,158	285,074	313,581
Service charges - refuse revenue	105,719	109,235	128,997	155,386	155,386	171,227	180,813	191,657
Service charges - other	44,874	92,403	2,536	54,427	54,427	27,564	28,762	30,496
Rental of facilities and equipment	8,219	11,439	11,195	13,915	13,915	14,772	15,717	16,722
Interest earned - external investments	14,957	16,434	10,584	8,569	8,569	11,152	9,738	10,361
Interest earned - outstanding debtors	35,321	21,235	24,695	25,708	25,708	22,796	24,433	26,193
Dividends received	6	10	3	-	-	5	5	6
Fines	17,371	36,770	34,649	35,008	35,008	35,008	36,759	38,597
Licences and permits	8	13	13	12	12	13	14	15
Agency services	-	-	-	-	-	-	-	-
Transfers recognised - operational	529,648	539,842	675,710	685,819	670,803	623,644	615,506	617,593
Other revenue	43,978	-	271,593	38,799	38,799	77,821	82,502	87,550
Gains on disposal of PPE	655	4,474		1,324	1,324	1,414	1,504	1,601
Total Revenue (excluding capital transfers and contributions)	2,876,682	3,289,293	4,033,340	4,341,394	4,479,149	4,707,786	5,036,743	5,359,761

Detailed information including the 2015/2016 and 2016/2017 outer years is also reflected by Table A4 of the budget tables as well as the supporting tables SA1 and SA25 (breakdown per month). Table A2 gives breakdown per General Finance Statistics (GFS) classification and Table A3 gives the breakdown per cluster.

Proposed Expenditure

Proposed expenditure for the financial year is as follows:

Table A4 (Expenditure)

Description	2010/11	2011/12	2012/13	Current Year 2013/14		2014/15 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
<u>Expenditure By Type</u>								
Employee related costs	632,652	722,714	748,859	827,886	828,479	881,749	923,067	992,288
Remuneration of councillors	22,931	25,133	26,661	41,852	42,158	47,185	50,205	53,418
Debt impairment	243,815	314,129	457,428	461,198	549,720	455,685	404,879	558,796
Depreciation & asset impairment	172,408	509,870	549,634	206,188	206,188	235,021	249,317	264,515
Finance charges	33,519	19,107	32,425	11,343	11,343	11,897	12,658	13,468
Bulk purchases	1,144,545	1,574,331	1,803,669	1,884,859	1,884,859	1,989,243	2,058,325	2,182,114
Other materials	938	18,239	31,361	3,285	3,285	8,251	8,575	8,998
Contracted services	47,495	83,289	82,581	100,949	109,449	134,239	139,833	146,430
Transfers and grants	-	-	-	-	-	-	-	-
Other expenditure	362,008	579,917	559,721	658,864	704,413	810,066	874,156	973,036
Loss on disposal of PPE	-	-	23,528					
Total Expenditure	2,660,309	3,846,728	4,315,869	4,196,423	4,339,893	4,573,335	4,721,015	5,193,062

Detailed information including the 2015/2016 and 2016/2017 outer years is also reflected by Table A4 of the budget tables as well as the supporting tables SA1 and SA25 (breakdown per month). Table A2 gives breakdown per General Finance Statistics (GFS) classification and Table A3 gives the breakdown per cluster.

Capital Budget

The Proposed Capital Budget for the MTREF is as follows:

Table A5 (Funding of Capital expenditure)

Description	2010/11	2011/12	2012/13	Current Year 2013/14		2014/15 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
Funded by:								
National Government	142,030	154,249	201,583	159,433	167,403	261,867	394,132	470,136
Provincial Government	5,839	6,272	81	21,700	22,850	1,140	2,100	2,100
District Municipality					-			
Other transfers and grants					-			
Transfers recognised – capital	147,869	160,521	201,664	181,133	190,252	263,007	396,232	472,236
Public contributions & donations								
Borrowing								
Internally generated funds	125,525	30,168	45,001	144,971	139,256	134,451	315,728	166,700
Total Capital Funding	273,394	190,689	246,665	326,104	329,508	397,458	711,960	638,935

The capital list for the MTREF period is reflected as per supporting table SA36. Further breakdown of the Capital budget per vote and department is given in Table A5.

Supporting tables SA34a, SA34b, SA34c, SA34d and SA35 give further information on the capital budget.

RECOMMENDED THAT

- Council take note of the Draft 2014/15 – 2016-17 MTREF Budget of R4,970,742,350 which comprises of the Operational Expenditure of R4,573,334,570 and Capital Expenditure of R397,407,780, as contained in the following tables:
 - Table A1 - Budget Summary;
 - Table A2 - Budgeted Financial Performance (Revenue and expenditure by standard classification);
 - Table A3 - Budgeted Financial Performance (Revenue and Expenditure by Municipal Vote);
 - Table A4 - Budgeted Financial Performance (Revenue and Expenditure);
 - Table A5 - Budgeted Capital Expenditure by vote, standard classification and funding;
 - Table A6 - Budgeted Financial Position;
 - Table A7- Budgeted Cash Flows;
 - Table A8 - Cash backed reserves / accumulated surplus reconciliation; and
 - Table A9 - Asset management; and
 - Table A10 – Basic Service Delivery Measurement
- Council take note of the draft supporting budget tables SA1 to SA36 containing additional information on the proposed budget, **distributed under Separate Cover**;

3. Council take note of the draft revised Property Rates Policy, **distributed under Separate Cover (pages 122 - 161)** and the Policy of the Provision of Free Basic Services, **distributed under Separate Cover (pages 168 - 191)** for the 2014/2015 financial year;
4. Council take note of the Draft By-laws to give effect to the Tariffs Policy, **distributed under Separate Cover (pages 162 - 167)**;
5. Council take note of the Draft Rates, Levies, Taxes and other tariffs for the 2014/2015 Financial Year (**distributed under Separate Cover**) and that after approval the Determination of Rate Levies be promulgated as required in terms of Section 14(2) of the Local Government: Municipal Property Rates Act, No 6 of 2004;
6. Council take note that the Electricity Tariffs are subject to approval by the Electricity Regulatory Body (NERSA), and that the approved tariffs be submitted to Council; and
- * 7. Council should note that the following policies which were previously approved have after review not been amended and are applicable for the 2014/2015 financial year:
 - o Credit Control and Debt Collection Policy, **distributed under Separate Cover (pages 49 - 75)**;
 - o Credit Control and Debt Collection By-laws, **distributed under Separate Cover (pages 76 - 110)**;
 - o Principles and Policy on Recoverable Debt and Writing Off of Irrecoverable Debt, **distributed under Separate Cover (pages 111 - 121)**; and
 - o Tariff Policy, **distributed under Separate Cover (pages 192 - 212)**.